

1 UNITED STATES OF AMERICA

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5 NATIONAL GAMBLING IMPACT STUDY COMMISSION

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9 MEETING

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12
13 Friday, March 19, 1999

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16 The Commission met at the Center for Strategic and
17 International Studies, 1800 K Street, N.W., Washington, D.C., at
18 8:30 a.m., Kay C. James, Chairperson, presiding.

19
20 PRESENT:

21 KAY C. JAMES, Chairperson
22 WILLIAM A. BIBLE, Commissioner
23 JAMES C. DOBSON, Commissioner
24 J. TERRENCE LANNI, Commissioner
25 ROBERT W. LOESCHER, Commissioner
26 LEO T. MCCARTHY, Commissioner
27 PAUL H. MOORE, Commissioner
28 JOHN W. WILHELM, Commissioner

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1 CHAIRPERSON JAMES: Good morning. I'd like to call our
2 meeting to order.

3 First on our agenda today we will be hearing from Dr.
4 Phillip Cook from Duke University. Drs. Cook and Clotfelter were
5 contracted by the Commission to study state lotteries, and
6 Commissioners will remember that at our meeting in Virginia
7 Beach, Dr. Clotfelter joined us to discuss the progress that he
8 and Dr. Cook had achieved to that point, and today Dr. Cook will
9 come to discuss the final findings of their lottery study.

10 I understand among the issues you will discuss, you
11 will specifically discuss the role of advertising in state
12 lotteries.

13 And, Dr. Cook, thank you so much for joining us this
14 morning as we eagerly anticipate your findings.

15 DR. COOK: Thank you.

16 I should say perhaps not quite final, but think of this
17 as a work in progress. But what I'm going to say today and what
18 you've seen in the report dated March 8th are very close to
19 final, and I don't think that the big picture is going to change.

20 Ten years ago Charles Clotfelter and I wrote a book
21 called Selling Hope, which was all about the state lottery
22 phenomenon, and it's been interesting now, a decade later, to
23 revisit that phenomenon and discover that, in fact, very little
24 has changed during that time, except that it's gotten bigger.

25 What I'd like to do today is to go through the report
26 that I did with Clotfelter and a couple of our colleagues in the
27 business school at Duke with, as Dean James said, emphasis on
28 patterns of play, on advertising, and on three alternative models
29 for the lotteries.

1 Let me start with a few warm-up facts. First of all,
2 in 1997, we had thirty seven state lotteries, plus the District
3 of Columbia. So there's 38 altogether.

4 They had total sales of \$36 billion, and just 55
5 percent of that was paid out in prizes. So that meant that over
6 \$15 billion was being left behind by the lottery players in the
7 form of net revenue to the state lottery agencies.

8 They used about four billion of that for operating
9 expenses and 11 billion was transferred to the state treasuries,
10 and so that's the magnitude as of 1997.

11 That \$11 billion that was transferred to the state
12 treasuries works out to an average of two percent of general
13 revenues for those states, which you might find surprisingly
14 small given all of the hype around the lotteries, but that's the
15 bottom line, that it accounts for about two percent, some states
16 a bit more, some states a bit less.

17 Lottery sales doubled between 1987 and 1997. So during
18 that decade they just about doubled, and that was primarily due
19 to an increase in the number of states which had lotteries. The
20 per capita sales in those states did not increase that much.

21 We are looking to likely further expansion. Where I
22 live in North Carolina, it has emerged once again as a hot topic
23 primarily because of the politics in South Carolina and the
24 belief that they're about to convert to a lottery state, and
25 Alabama may also go that direction and several other states. So
26 we haven't quite seen the end of this bandwagon.

27 Another possibility for growth would be greater market
28 penetration for a couple of the new on- line games, particularly
29 keno, and perhaps growth in video lotteries.

1 Okay. Let me ask Doug to crank up the overhead
2 projector, and I'd like to now talk about patterns of play, about
3 who plays the lottery. Last year, as you know, and in fact, you
4 commissioned -- the NORC conducted a national survey of gambling
5 behavior. It was the first such survey that had been done since
6 1975, and it provides a wealth of information on gambling and on
7 lottery play in particular.

8 I've analyzed the results of that survey, working to
9 some extent with the scientists at NORC, and focusing on the
10 three predominant games, those games being the instant
11 scratch-off game, the numbers game, the pick three, pick four
12 game, or the lotto type game.

13 What we found, based on the NOR survey, is that in
14 lottery states 55 percent of adults over 18 said that they had
15 played in the previous year, and in non-lottery states 28 percent
16 had played. So actually non-lottery states have a very high
17 participation rate, but lottery states have a stunningly high
18 participation rate. This is a very popular state program, and it
19 remains so year in and year out.

20 The market penetration involved in lottery vastly
21 exceeds other forms of gambling and probably rivals things like
22 going to the movies and some other things. So this is a very
23 widespread phenomenon.

24 The demographic patterns on participation are not very
25 interesting, and I'm not even going to bother to show you any
26 slides on that because basically there is an extraordinary degree
27 of uniformity whether you look at sex, race, ethnicity, if you
28 look at whether people are single or married, if you look at age
29 categories, look at education, look at income or any of those

1 dimensions. For any one of those dimensions, what we've found
2 was that participation nationwide is about 50 percent. So, you
3 know, men and women are both about 50 percent of men are playing,
4 50 percent of women are playing, give or take a few percentage
5 points.

6 If you look at the education spectrum, there's some
7 drop-off at the high end, but not much. Income is about 50
8 percent right across the income spectrum and so forth.

9 So that these traditional socioeconomic and demographic
10 factors are not really distinguishing lottery players from
11 non-players. This is an activity that has broad popularity and
12 very broad participation pretty much across the spectrum.

13 Maybe the only exception of all of those categories is
14 the elderly, people 65 and over who do have a lower participation
15 rate than others.

16 That kind of uniformity though in participation belies
17 the enormous variation in the amount people play, and that's
18 where the action is, and that's where it becomes worthwhile to
19 start showing some overheads. So let's turn to it.

20 Doug, let's go back to this one, which you've already
21 seen, but let me explain what's going on with this chart because
22 it's the same with the others.

23 What you see in the top bar is the per capita play for
24 all adult males in the U.S., and what that says is that they play
25 on the average of \$204 per year.

26 The next bar, the shaded bar, shows the half of adult
27 males who actually played at least once in the preceding year
28 averaged \$368. Okay. So the dark bars show average played by

1 players. The unshaded bars show average play for all adults in
2 that category.

3 And what you see here is that even though, again, men
4 and women are about equally likely to play, men play more when
5 they do play, and that increases per capita sales and sales by
6 players as is shown there.

7 Okay. The next is by age, and there we see that
8 there's a steady increase in per capita play as age increases up
9 through 64, and the highest bracket, it falls back a bit, but not
10 much, and so, again, looking at the unshaded bars to get the per
11 capita picture, that's what you see here.

12 As I mentioned, those 65 and older are less likely to
13 play. If they do play though, they play more, and that's what
14 we're seeing in the bottom part of that.

15 Okay. The next is race and ethnicity, which we've
16 divided into the first two groups, are non-Hispanics, whites and
17 blacks, and of course there's a huge difference, as you can see,
18 in terms of average play for whites and blacks; that blacks' per
19 capita play is over four times as large as white. Hispanic per
20 capita play is a bit higher than whites, but not a great deal.

21 Okay. Now, turn to education. This is a pattern that
22 has shown up in every lottery study I've looked at, including the
23 ones that I've done, and that is that average play is inversely
24 related to education. Those with the least education play the
25 most, and you can see that the per capita play is \$334 for people
26 who have not completed high school, dropping steadily down to
27 college grads, who played just \$86 per capita, and the average
28 play by those who do play drops also in a similar fashion. So
29 that's what we're looking at there.

1 And then finally, this is the pattern by income.
2 Again, looking at the unshaded bars, what you see is that up to
3 \$50,000 or so, there's not a whole lot of variation, some
4 drop-off in the middle income brackets there, and then in the
5 highest income brackets, further drop-off as you can see. So the
6 highest play that we're seeing is by those who have the lowest
7 income, those under \$25,000 a year, and then some drop-off after
8 that.

9 It's also interesting to recognize that, of course, the
10 income measure that we're using is a household income measure,
11 and the amount played here is by the individual, and so what
12 would be more reasonable to compare the total played by members
13 of the household with household income.

14 That's actually a simple conversion. All that's
15 required is to multiply all of those numbers by two, and when you
16 do that, you get some sense about what household play is, and
17 what it comes down to is that for households that are earning
18 under \$10,000, the average per household play is about \$580, and
19 then it drops off there.

20 So that gives you a better sense of the burden, the
21 possible burden, that this phenomenon has on households by
22 recognizing that the average household has two adults in it, and
23 that's true pretty much across the income spectrum, with some
24 small variation.

25 Okay. So that's it for the demographic patterns.

26 I want to talk about another kind of variation, which
27 is simply the individual variation in play regardless of
28 demographic category or socioeconomic category. For lotteries,
29 as for most everything else, there is tremendous variation among

1 individuals and how much they participate, and that variation is
2 of great importance to the economics in state lotteries.

3 Those of you who have studied marketing probably know
4 the law of the heavy half or the 20-80 rule, which is to say that
5 for most products 20 percent of the people who buy that product
6 account for 80 percent of the sales. Sure enough, for lotteries
7 it turns out 20 percent of the people who play the lottery
8 account for 81 percent of total sales of the lottery.

9 The top five percent of lottery players account for
10 half of the sales, and that's the group that is playing \$3,500 or
11 more per year. Okay?

12 So when you're thinking about lotteries, you can say
13 median playing for people who play is just \$74 per year. It's a
14 very light involvement, and your casual impression of lottery
15 players is probably based on people that you know, and if they're
16 at all typical, they play occasionally, but it doesn't add up to
17 much over the course of the year, and no one would be concerned
18 about it.

19 But those people, these typical players, are of very
20 small importance to the economics of state lotteries. The people
21 who are important are those who are playing heavily because they
22 account for so much of the sales. It's the people that are
23 playing \$3,500 a year or more that, as I said, account for half,
24 and without them, the lottery business would be far less
25 profitable than it is.

26 We did a calculation just to illustrate that, which was
27 to say let's assume that everybody was typical, that is,
28 everybody played the same amount as the median player, \$74 a
29 year. What would total sales be in that case?

1 And the answer is it would drop all the way down to
2 about 7.4 billion from 36 billion. So the casual impressions in
3 this area are vastly misleading. The sense that everybody plays,
4 it's a broad based participation is absolutely true, but the
5 people who are important in terms of revenues are this very
6 small, relatively small group who are very heavily involved with
7 the lottery, playing \$3,500 a year or more.

8 Okay. So that's a quick Cook's tour, so to speak, of
9 the lottery participation and involvement. I'd like to turn now
10 to discussion of advertising, and that, of course, is part of
11 what should be a longer and larger discussion of marketing.

12 Whether talking about marketing or advertising, I have
13 no particular qualification, and so I am going to switch here
14 from an economist to a citizen who can talk about these ads as
15 well as anybody else.

16 Our team does have two people from the Duke business
17 school, the Fuqua School of Business, who are marketing experts,
18 marketing professors, and they are working on the mound of
19 material that the Commission staff was able to solicit from the
20 state lotteries, and so we hope that in a couple more weeks we
21 will have a much more systematic account of marketing plans, use
22 of the media, and so forth.

23 What I'd like to do today though is just talk about
24 some of the ads that I viewed that came as part of our
25 solicitation, part of the lottery, part of the staff solicitation
26 to illustrate some of the messages and tactics that are being
27 used in lottery advertising.

28 And the play list was typed out and is distributed. So
29 you should have that in front of you, a single sheet of paper

1 called some of the messages and tactics used in lottery
2 advertising.

3 What I propose to do is just go through quickly
4 videotape selections of TV spots and then also show a couple of
5 newspaper ads.

6 As background, let me just say that the lottery places
7 the states in what is a new business, which is also a problematic
8 business, a rather strange business, that is, promoting an
9 activity that has no public or private virtue associated with it
10 whatsoever, and, in fact, of course, gambling traditionally has
11 been viewed as a vice rather than a virtue and continues to be
12 viewed in that fashion by many groups in this country and
13 elsewhere.

14 Furthermore, the lottery is a lousy bet. Its 55
15 percent payout rate is lousy by the standards of casinos or
16 betting on parimutuel races or anything.

17 So the question is: well, how do you go about selling
18 this product to the public? And what kinds of messages have the
19 state governments through their lottery agencies seen fit to use
20 in promoting it?

21 And so let me talk about providing a little bit of
22 commentary, although, as I say, this is commentary that any one
23 of you is probably better qualified to provide than I could, and
24 then I will go on to the next topic.

25 The first message that is used and shows up in about a
26 quarter of the marketing plans is simply a kind of a feel good
27 message about the lottery itself and the good thing that it's
28 doing for the state. So let's start with an example from Oregon
29 where they are telling us the lottery dollars help provide

1 education and job training, that is, that the lottery is helping
2 the group that actually is playing most heavily in the lottery is
3 one way of seeing it.

4 (Whereupon, a video was shown.)

5 DR. COOK: Okay. Thanks, Doug.

6 So that is one campaign that shows up in a number of
7 states from time to time. The general politicking about the
8 lottery is what it amounts to, and also perhaps to make people
9 who participated in it feel good about their buying tickets as
10 being a sort of philanthropic activity.

11 A second message that shows up frequently is just the
12 money. It's a focus on the money. Of course, that's what this
13 is all about, and we can show a couple of overheads in that
14 respect from newspaper ads that make the case very clearly.

15 Start with the Colorado lotto jackpot, for example. It
16 gives you the idea about what this is about. All right. So \$10
17 million, and then the other one is the Arizona Power Ball
18 jackpot. Again, very simple, straightforward message. In this
19 case it's a lie because if you won this, you would not be able to
20 make a deposit of \$175 million because it would be annuitized
21 over 20 years. So but in any case, a clear, blunt message. Big
22 numbers out there.

23 Of course, this easily then brings in the question
24 about fantasy and helping potential players think about what it
25 would mean for them to have that big number in their checking
26 account, and so we can turn to Colorado, for example, which ran a
27 whole campaign around ten second segments. We have the Porche,
28 the golf clubs, the jet plane, where the tag line is another
29 reason to play lotto, and they had about eight or nine of those.

1 And then there's a Kentucky spot.

2 (Whereupon, a video was shown.)

3 DR. COOK: Okay. So if you have any trouble imagining
4 what to do with the money, they're going to help you with this
5 and what life would be like, and that, again, is a common
6 campaign.

7 The lottery has a real problem though in connection
8 with these big jackpots, and that is in persuading people that
9 they really have a possibility of winning, and of course, the
10 odds are extraordinarily long on the lotto and some of the other
11 bigger prizes.

12 And what the lotteries have done is to adopt the
13 science of cognitive psychology to the problem of game design and
14 advertising design to persuade people that it's more likely that
15 they're going to win than they might think.

16 Certainly this effort begins with game design. If you
17 take, for example, a standard lotto format, which is you pick six
18 numbers out of 49; if all six of those drawn, you win the
19 jackpot. Well, choosing six numbers out of 49 correctly is
20 equivalent to choosing a single number between one and 14
21 million, and so you could have the equivalent lotto game, which
22 is pick any number between one and 14 million, and if you choose
23 the right one you'll win. Absolutely equivalent mathematically,
24 but who would buy it, right?

25 So the idea of the 6-49 game is to conceal the fact
26 that you're playing a game where it's essentially impossible that
27 you will win on the basis of your one dollar bet.

28 In the advertising campaigns, of course, the obvious
29 thing to do is to show people winning, which they do, and so

1 whenever there's somebody playing in an ad, it's almost always
2 true that they end up winning, and so that helps people then with
3 this illusion that it's likely that they're going to win.

4 But some ads are more blatant than simply showing that,
5 and so let's turn to the Arizona bingo spot here. This was part
6 of a long campaign that they have.

7 (Whereupon, a video was shown.)

8 DR. COOK: So what they do in that ad is they sort of
9 fill the air with smoke. They give you all of these different
10 ways you can win and play and do things, and then they give you
11 the conclusion, which is quasi logical, and that is so chances
12 are good that you can win \$10,000.

13 Well, in fact, the chances are minuscule that you can
14 win \$10,000 from this game, but the idea is to misrepresent it as
15 much as possible.

16 Let's turn to Texas, which has a more subtle approach.

17 (Whereupon, a video was shown.)

18 DR. COOK: They had a whole campaign around that. You
19 didn't see in those ads any legible statement about what the
20 actual odds of winning would be, and that's because, well, I
21 guess in one of them there probably was a little spot there that
22 appeared for a second or two that wasn't legible. Now, this is a
23 copy of a copy, but it's still true that it's tiny print.

24 Let's go back to that Arizona Power Ball overhead, and
25 just to help maybe you could push it up a little bit because the
26 relevant material is at the bottom, and somewhere in that tiny,
27 tiny print at the bottom is some statement about odds, which is
28 what, approximately one in 35 chance of a cash prize.

1 And so at the top where you can't miss it is 175
2 million and then nothing about the odds of winning the 175
3 million, but if you get out your magnifying glass, you can find a
4 one in 35, but not connected with any indication of how much
5 money that might be, and that is the standard ploy, that if they
6 do show any kind of odds statement, it will be in connection with
7 the smallest prize or with a free ticket or something like that,
8 whereas when they talk about prizes themselves, they talk about
9 the big prizes.

10 More often they just don't give us any information at
11 all, which of course would not be allowed for private sweepstake
12 promotion. FTC requires, you know, Publishers Clearinghouse and
13 those kinds of outfits to tell us what the odds of winning are
14 for every type of prize.

15 COMMISSIONER WILHELM: That's very effective, too.

16 DR. COOK: Yeah, that's really effective. That's
17 right.

18 There are exceptions. So let's go on and look at the
19 Virginia. I mean it can be done right.

20 COMMISSIONER WILHELM: There's no pandering here at
21 all.

22 CHAIRPERSON JAMES: None at all.

23 DR. COOK: So sure enough, the number is understated
24 nicely. No, this is some kind of a generic spot which presumably
25 they print this in the newspaper every day or every week, but
26 part of it is this very clear statement about the odds of winning
27 the jackpot that comes right underneath the jackpot itself.

1 And so it's not that it never happens or it can't
2 happen, but it happens rarely that there's this kind of
3 information.

4 COMMISSIONER MCCARTHY: That's required under state
5 law?

6 DR. COOK: Not as far as I know. What is required in
7 the Virginia law is that they not use advertising that's
8 encouraging people to play more than they would otherwise, and so
9 there is a restriction built into the law and the kinds of
10 advertising they can use. I'm not sure whether they are required
11 to post these odds or not.

12 Most people even when presented with information like
13 one in 7.1 million don't know what to do with it or don't think
14 in those terms; that, in fact, what they think about is more that
15 if they get lucky or if they have enough insight, that they might
16 be able to beat the odds.

17 And the lottery encourages that just as gambling games
18 have through the centuries by giving people choices, and
19 typically in our experience when you have a choice, some people
20 are going to do better than others because they're more skilful.
21 All right? And so sort of in our minds choice is linked to
22 skill.

23 Here we have a chance to choose what number we're going
24 to play or what combination of numbers we're going to play. It
25 must be true that if we did a little research or if we thought
26 clearly about this, that we would be able to out perform the
27 randomly selected number.

28 And to help people along those lines, you can actually
29 buy all kinds of aids. You can go and buy one of those grocery

1 store check-out line magazines, you know, that will give you all
2 kinds of suggestions from your horoscope and from numerology
3 about what numbers are likely to hit today.

4 More interesting in some ways is you can buy computer
5 programs that will keep track of all of the numbers that have hit
6 in your state over the last several years, and you can chart them
7 or do whatever you want to decide what numbers are hot and what
8 numbers are not, very much like the Wall Street analysts do
9 perhaps.

10 (Laughter.)

11 DR. COOK: And the other possibility is that you can
12 watch lottery ads, which occasionally will give you some hints
13 about how you can exercise skill in playing the game and improve
14 -- implicitly how you can improve your odds.

15 So let's look at Texas, which had a whole campaign
16 based on winners.

17 (Whereupon, a video was shown.)

18 DR. COOK: And then Virginia has an ad with a different
19 sort of message, but the same idea that there may be some skill
20 involved in this if you're alert. So let's take a look at that.

21 (Whereupon, a video was shown.)

22 DR. COOK: Particularly dark.

23 COMMISSIONER WILHELM: I think he set us up.

24 DR. COOK: That's right. Here I was saying those nice
25 things about Virginia.

26 There's another sort of message that's used in this
27 one. We looked at survey results during the booking. In the
28 1980s there was one survey that asked people why they played the
29 lotteries, and about half the players said they played for fun,

1 whatever that means. The other half said they played as an
2 investment, and they saw it as the equivalent of perhaps playing
3 the stock market, and there have been ads over the years that
4 have encouraged that perspective on it, that is, that as you play
5 for the future or as you plan for the future, that you should
6 make the lottery part of your portfolio.

7 There was actually a famous ad in the 1980s about a
8 retired man's fishing in a lake in Connecticut, laughing because
9 he said, "I never planned for the future. I never saved. I
10 never did anything that they told me to do. What I did do was to
11 play the Connecticut lotto game and I won umpteen million dollars
12 and here I am," and then he laughs and laughs to show that he got
13 one over on all of those prudent people that were encouraging
14 people to plan ahead and to save and be careful.

15 That ad, incidentally, was yanked by the Connecticut
16 legislature at the time, but it still shows up from time to time.
17 In a fairly mild form we can see it in Kansas here, the idea that
18 the lottery is the way to get ahead in life.

19 (Whereupon, a video was shown.)

20 DR. COOK: I might also grumble that he looks about 15
21 years old in that beginning picture.

22 The marketers, of course, see their problem as being
23 twofold. One is to convert people who are not lottery players
24 into lottery players, and the second thing is to take people who
25 are lottery players and get them to play more often and to spend
26 more money.

27 So one frequent campaign that you see across the board
28 is an effort to encourage people to play more often, not to miss
29 a day in their game. So just as a quick example, we have

1 Louisiana with a campaign that -- go ahead -- a campaign that had
2 every day of the week.

3 (Whereupon, a video was shown.)

4 DR. COOK: Okay. So that's some of the messages I
5 thought were worth relaying to you. There is one other that is
6 showing up occasionally, and I know that part of your charge is
7 to worry about problem gambling or pathological gambling, and
8 some states are now also bringing in spots on that.

9 The Oregon one is interesting because of where the
10 implicit blame is going for the problem as you'll see.

11 (Whereupon, a video was shown.)

12 DR. COOK: So that is sponsored by the Oregon lottery,
13 but it's all about casinos.

14 (Laughter.)

15 DR. COOK: And, in fact, again, in the 1980s when we
16 looked at this, we found that for the New Jersey hot line about
17 20 percent of the people who called said that, in fact, it was
18 the lottery that was their predominant problem. That's the game
19 that they were playing, which is not surprising once you see this
20 top five percent that are spending \$3,500 or more a year,
21 including those making under 10,000 on their own.

22 Okay. So that's a presentation on advertising, and I
23 would like to spend a few minutes talking about alternative
24 visions for a state lottery. Obviously we're in the lottery
25 business for the foreseeable future. Only in North Carolina and
26 a handful of other states are we still talking about whether we
27 should have a lottery or not. No state since 1964 that has
28 adopted lottery has changed their mind about it or is likely to
29 change their mind about it.

1 And so the question is: well, given that lotteries are
2 here to stay, then is there only one way to run one of these
3 lotteries or could we think about some alternatives?

4 Most of the lotteries in this country, maybe all of the
5 state lotteries fit under the category that we call the revenue
6 lottery where the mission either explicit or implicit is to make
7 as much money as possible for the state treasury. In some cases
8 the authorizing legislation charges them with that objective.

9 Very often lottery directors will say that that's what
10 they're trying to do, that they pride themselves on being
11 businesslike and on maximizing profit for the state. They
12 struggle to be allowed to act like a business rather than a state
13 agency as much as possible, and they have gotten a great deal of
14 freedom in that respect.

15 The features of the revenue lottery are that there is a
16 low payout rate or a high implicit tax, and the other thing is
17 that there's heavy promotion, as we have seen here, and other
18 kinds of marketing. So a very systematic approach to product
19 design, to advertising, to outlets, and all the rest of it.

20 The second possibility for a lottery is what we
21 describe as the assumptuary lottery, and the mission of
22 assumptuary lottery if we were to invent one would be to satisfy
23 what the British call unstimulated demand. This, in fact, was
24 the guiding term in terms of British gambling policy for many
25 years, and so the idea was, sure, you have casinos and other
26 kinds of games in Britain, but they're supposed to be understated
27 in the British tradition and not to be encouraging people to
28 participate.

1 So the assumptuary lottery would be the equivalent of
2 the state liquor store at least in many states, including North
3 Carolina, or something that we call the lottery in the plain
4 brown wrapper. So it's just there. Take it or leave it.
5 There's no particular effort here to foist it on people who
6 wouldn't otherwise want it.

7 And so among the characteristics might be no promotion,
8 limited product line, certainly limits on the number and kinds of
9 outlets, you know, crabby clerks and the whole business, much as
10 you might get in a state liquor store, and the tax rate
11 presumably would remain high in that.

12 And then the third vision that we had or the third
13 model that we had was what we call the consumer lottery, and the
14 consumer lottery takes a different view. It says, well, it seems
15 to be a notion here that the lottery is innocuous. It's fun.
16 It's something the public likes to play. Why don't we embrace
17 that view and take a new approach, which is to say that the
18 purpose of the lottery is not to make money for the state so much
19 as it is to satisfy a reasonable interest on the part of the
20 public in gambling in this fashion, and the state is providing a
21 service to the public just like it does with its community
22 college service system or its state parks. It should provide
23 that service to the public. If the public wants to gamble, give
24 them a chance to gamble, and make it as attractive as possible.

25 So the object then is to serve the public rather than
26 to exploit the public in the consumer lottery with no guilt about
27 what you're doing, and in that case presumably you would knock
28 down this very high tax rate, which is to say increase the payout
29 rate, maybe limited advertising. That's debatable. Certainly

1 allow new products to creep in as attractive products are
2 invented. Provide convenient outlets and all the rest of it.

3 So that would be quite different. This kind of
4 customer service vision of a lottery would be yet another view of
5 things.

6 But as I say, what we actually have in this country is
7 one after another revenue lottery where whatever is said at the
8 time of adoption, why people vote for these lotteries at the time
9 of a referendum, in fact the way that they're run, is to get as
10 much money as possible for state programs.

11 The only exception to that is that there have been
12 states that have adopted some of the views of assumptuary
13 lottery. That is, for example, in Virginia and Wisconsin and a
14 couple of others, there has been restrictions on advertising, and
15 there has been some discussion and in some cases political
16 opposition to introducing, say, keno or to introducing video
17 lottery games on the grounds that that is more risky. It risks
18 more problem gambling than traditional forms, and so those have
19 been stopped politically.

20 So that's what we have now, is primarily the revenue
21 lottery with some elements of assumptuary lottery creeping in in
22 some places, and the consumer lottery has yet to surface.

23 That's my remarks, and I'll be happy to answer any
24 questions.

25 COMMISSIONER WILHELM: Dr. Cook, I found not only your
26 work specifically for the Commission, but especially this
27 report, extremely helpful, and I appreciate that.

28 And I should say by way of preface that personally I'm
29 not a lottery fan. On the other hand, it seems to me that if

1 we're going to make recommendations about the lottery, which
2 we're charged to do, that we ought to make sure that the
3 recommendations that we make have a sound foundation.

4 I appreciated your pointing out to us that at one point
5 in your presentation you were switching from your professional
6 expertise to your expertise as a citizen. I think both kinds of
7 expertise are perfectly valid.

8 This first observation is not really addressed to you,
9 in particular, because it's fairly common. You made reference to
10 gambling as a vice, and you said there are a lot of groups --
11 that was the term you used -- in society that support view of
12 gambling. Obviously, you're right. There are a lot of groups
13 that say that.

14 One of our colleagues on the Commission recently
15 circulated a piece of paper that said that it was very important
16 that we define gambling as a vice. There wasn't any particular
17 foundation for that, but of course, it was his opinion, and it's
18 a perfectly valid personal opinion.

19 But as I read polls on this subject, I don't believe
20 the American people as a whole look upon gambling as a vice
21 except in those cases where people engage in excessive gambling
22 and have a negative impact.

23 So I think that to the extent the Commission is going
24 to try to have a solid foundation for what it does, that we've
25 got to be careful of sort of personal opinions like that and not
26 get them confused with something that has a foundation of some
27 kind either in public opinion or in science.

28 And flowing from that, you made the observation that
29 lotteries are a lousy bet. That was your phrase, and I

1 understand that. I don't personally play the lottery, and as I
2 said, I'm not fan or supporter of the lottery, but I would like
3 to know what your response is to the finding in the NORC poll,
4 and you made reference to it in your paper, that actually people
5 think the odds are worse than they really are.

6 I was, frankly, startled by that, but the more I think
7 about it, the more it makes sense because I have always believed
8 just as a personal opinion -- I don't have science for this
9 either -- that the American people as a whole are not stupid, and
10 if that poll is right, people don't really need to be told how
11 bad the odds are because actually they think the odds are a lot
12 worse, and yet they participate anyway.

13 What do you make of that?

14 DR. COOK: Okay. So two questions, one about what's
15 the actual or scientific grounds for labeling gambling a vice. I
16 mean, I think that's a matter of history and simply observation.
17 You know, if you look back, many of the classic texts -- we
18 included Chaucer, for example, The Canterbury Tales talking about
19 it's a waste of time and money and certainly labeled as a vice.

20 More recently we have the vice squads of our big cities
21 being concerned with eliminating the numbers games on the
22 streets, and so that I think that, you know, of course it has
23 been viewed as a vice. The fact that a majority currently is
24 comfortable with the lottery is neither here nor there. I'm not
25 saying anything about the majority, but merely about a
26 traditional view that continues to be fervently held by a group
27 of people, albeit a minority, just as a minority fervently
28 opposes abortion and a number of other things.

1 I don't think you can settle this issue on the basis of
2 public opinion polls. Let me just say for myself I'm not
3 particularly concerned about it, and I play the lottery from time
4 to time. I don't see it as an issue, but where I get
5 uncomfortable is when the state crosses the line to active
6 promotion of this activity.

7 And just as I would be uncomfortable with them actively
8 encouraging people to drink alcohol, and I think that it's the
9 same basic situation, the same basic set-up. Most of the public
10 drinks alcohol. The majority does. The percentages are quite
11 similar to the percentages that play the lottery, and folks are
12 fairly comfortable with moderate drinking, but I think they would
13 be uncomfortable with a state agency, the ABC or whatever it is,
14 getting into the business of active promotion, saying, you know,
15 you really should convert from being a weekend drinker to an
16 everyday drinker or that you really should try to branch out in
17 the kind of drinking you're doing so that instead of just
18 drinking beer, why don't you also drink whiskey with that beer,
19 and so on.

20 It's the difference between the public agency which
21 carries the notion of the public interest behind it, a
22 presumption of a group that is supposed to be supporting the
23 public interest, and taken seriously in a way that Madison Avenue
24 ordinarily is not taken seriously. That is the distinction here
25 and the distinction that I care about.

26 I would feel quite differently if it were Proctor &
27 Gamble's lottery that we were talking about and their promotion
28 than I do if it's a state agency that's providing these messages
29 about, you know, incorporate the lottery into your financial

1 planning for the future and don't believe that you can win. Of
2 course, it's likely that you can win a big prize if you just
3 trust your luck or if you just use the right system.

4 All of that kind of misrepresentation and lies that
5 we're used to when it comes to ordinary commercial gambling has a
6 different spin when what we're talking about is a state agency.
7 The same state government that brings us public education is
8 bringing us quite a perverse set of messages from this other
9 lottery agency.

10 And if you were to say would your Department of
11 Education accept the curriculum that is incorporated in the ads
12 that we've been seeing as the messages they wanted to deliver to
13 the third graders or their eighth graders, I think the answer
14 would be of course not, of course not.

15 So that's the kind of distinction that I think is
16 important here. I want a lottery that your Department of
17 Education would adopt in the schools in terms of the basic
18 messages that are being used to promote it. I don't want this
19 kind of internal inconsistency.

20 COMMISSIONER WILHELM: Speaking personally, I agree
21 with your basic point here. I'm intrigued by the assumptuary
22 lottery, as you put it, and I appreciate the fact that you tried
23 to put forward some alternatives for us to think about.

24 I'm intrigued, and I don't mean this to be facetious at
25 all, by the state liquor store comparison. I share with the
26 chair that I'm from Virginia where I don't know what you all have
27 done lately, but we always had state liquor stores. Do we still
28 have state liquor stores in Virginia?

29 CHAIRPERSON JAMES: Oh, yeah.

1 COMMISSIONER WILHELM: And I know -- and again, I don't
2 mean this to be facetious -- I know that part of the history of
3 state liquor stores was to try to control the distribution of
4 liquor, but part of it was also to protect the moonshine trade,
5 which was, you know, a flourishing trade in the part of Virginia
6 that my family comes from.

7 And in that regard, you touched on this in your book.
8 I know just anecdotally from having lived in urban northeastern
9 neighborhoods for many years, ethnic neighborhoods, that the
10 illegal but wide open daily number or policy, you know,
11 flourished in many of those neighborhoods. In your view, what is
12 the relationship, if any, between illegal number or policy play
13 and legal play? That is to say, has legal play diminished or not
14 diminished illegal play?

15 And, secondly, in your view, what is the relationship,
16 if any, between the very high relative dollar amounts being
17 played by some groups, particularly poor people and African
18 Americans, among others, in your presentation; what is the
19 relationship if anything, between the history of illegal number
20 play in some kinds of neighborhoods and those high amounts of
21 play?

22 DR. COOK: Well, of course, the lottery agencies simply
23 borrowed the street game, and so the pick three and pick four
24 games were modeled exactly on the games that have been played on
25 the streets, and it's not surprising that that is the game that
26 appeals disproportionately to people living in those
27 neighborhoods, Hispanic and African American neighborhoods that
28 traditionally would have had an illegal game.

1 I am sad to say I don't know whether the illegal game
2 has survived this kind of competition from the state. We
3 certainly looked into that in the 1980s, and we found some
4 interesting stories suggesting that it was still active, and that
5 in some ways the state game had become helpful to the street game
6 because it solved a problem that the street game always had,
7 which is people didn't trust the process by which numbers were
8 chosen.

9 And so the street game started using the state number
10 as their number, and that solved the problem. The numbers
11 players trusted the state more than they trusted their own
12 system.

13 (Laughter.)

14 DR. COOK: And they provided better service. They
15 provided smaller bets. There was a variety of ways in which, you
16 know, they were able to compete.

17 So at the time it looked like there was a continuing
18 niche. What we've seen since then is that the payoff for the
19 state lottery games has crept up from 50 percent up to 55 percent
20 on the average, and I think it's probably continuing to go up,
21 and we may see the illegal game eliminated in the same way that
22 moonshine was eliminated, by pricing.

23 Eventually the street game won't be able to compete on
24 price as it has in the past, just as the moonshiners now find
25 themselves with a more expensive product than you can buy in the
26 state liquor store.

27 COMMISSIONER BIBLE: Have we had any research from
28 focus groups as to the effects of these ads? And trying to
29 follow up on John's question, people really aren't stupid, that

1 indicate that they are buying this, that they don't understand
2 the nature of the game, the probabilities and things of that
3 nature? Are there focus group studies that demonstrate that?

4 DR. COOK: I don't know whether there have been focus
5 groups, and it sounds like an interesting project that we should
6 consider taking on with our business school colleagues.

7 I think that clearly there's a big market for
8 misinformation about how to play the lottery.

9 COMMISSIONER BIBLE: And that's true of a lot of
10 advertising, a lot of I'm thinking political advertising and your
11 notion that you should post the odds. You do the same thing by
12 extension in the political area. You could post the
13 probabilities of all the promises that are going to be kept that
14 are made in the various political ads. I'm thinking something
15 like the Contract with America where they communicated they were
16 going to term limit themselves, which the probability that six
17 years later they're going to actually not run and things of that
18 nature. It's a fascinating concept.

19 DR. COOK: But, again, just if you look at where people
20 get their ideas about how to win the lottery, you know, there's
21 lots of advisors out there that are providing them. It's not
22 just the commercials. It's also --

23 COMMISSIONER BIBLE: I assume that you advocate that
24 these ads should somehow be regulated or changed. Would you
25 advocate changing or controlling other forms of speech?

26 DR. COOK: Sure. I believe in regulating certain forms
27 of speech. I think the First Amendment, like the others, has
28 some limits to it, and we have to figure out where to draw the
29 line.

1 But this is a particularly odd situation since the
2 First Amendment and freedom of speech was designed to protect
3 individuals against the government. What we're talking about
4 here is the government and regulating the government. It's an
5 entirely different situation from that standpoint.

6 COMMISSIONER BIBLE: But you don't have a difficulty
7 then with casino advertisements?

8 DR. COOK: No. I think casino advertisements --

9 COMMISSIONER BIBLE: Because of the governmental
10 nature.

11 DR. COOK: And I might or might not have problems with
12 casino advertisement as a father and as a citizen and all the
13 rest of it, but I think that it's in a different category
14 entirely than advertising by a government agency to encourage
15 people to do something that's problematic at best.

16 COMMISSIONER BIBLE: And if the government removed the
17 lotteries from being a governmental agency, in effect, set a
18 private corporation that would run the lottery, you would not
19 have -- your objections would disappear?

20 DR. COOK: I would be much more comfortable with that
21 arrangement if it were clear that the state government auctioned
22 off the right to run a lottery or, in fact, opened up the market
23 and just let the private sector take over.

24 At that point there might be some regulation of the
25 sort the FTC currently exercises over private sweepstakes and the
26 rest of it, which would be more stringent than the current
27 regulation that we have.

28 COMMISSIONER WILHELM: Well, the state government
29 doesn't have a First Amendment right to do anything, does it?

1 DR. COOK: Well, that's what I was trying to say.

2 COMMISSIONER WILHELM: Yeah.

3 DR. COOK: It's the reverse of the First Amendment
4 situation.

5 COMMISSIONER WILHELM: But I mean legally, as I
6 observed before, among my many handicaps, one of them is not
7 being a lawyer, but I don't believe the state government has any
8 First Amendment rights at all, unless I'm misunderstanding the
9 First Amendment.

10 I had one other question. what is your view of the
11 likelihood of the continued expansion of electronic forms of the
12 lottery, like the video lottery terminals and the keno that you
13 see in California, for example?

14 DR. COOK: I don't know. I think that's sort of
15 political prognostication. I think it's interesting that the
16 revenue imperative has fallen short in those areas. So right now
17 we have something like 12 states who have keno and five or six
18 states with video lotteries run by the state lottery agency, and
19 so that has not taken over in the way you might expect, given
20 that it seems to be quite profitable in the states that have it.

21 And it could be that sort of the traditional
22 distinction that the public makes and legislature makes between
23 casino type games and the traditional lottery type games is some
24 kind of bulwark against that spread for the time being.

25 COMMISSIONER BIBLE: If you look at the lotteries as a
26 regressive form of taxation or voluntary form of taxation, would
27 it be more or less regressive than, say, sales tax on food, sales
28 tax on medicine?

1 DR. COOK: It's astonishingly regressive. The tax that
2 is built into the lottery is the most regressive tax that we
3 know.

4 COMMISSIONER BIBLE: So it would exceed something like
5 the sales tax on food, depending upon rate, of course?

6 DR. COOK: Yeah, and exceeds the regressivity of the
7 sales tax, the excise tax on cigarettes, alcohol.

8 Regressivity is defined in terms of percentage of
9 income that is spent on a tax. What we see here is not only does
10 that percentage decline as income increases, but the absolute
11 amount spent on the lottery declines as income increases, and
12 it's very hard to find another product where that's true, another
13 product category. This is really an unusual product in that
14 respect.

15 CHAIRPERSON JAMES: Any other points of discussion?
16 Please.

17 COMMISSIONER MOORE: Who are the five percent that
18 spend \$3,500 or more on the lottery a year?

19 DR. COOK: That's a real interesting question. The
20 problem is that, of course, it's pushing the sample size on the
21 survey to give a very good answer to that. So if you talk about
22 five percent, you're talking about 100 and some people so that it
23 is going to be pretty vague.

24 But the work that we've done back in the 1980s on a
25 similar question suggests that they show up in pretty much all of
26 these different categories, and so it's not an isolated
27 phenomenon. It's not saying this particular group is going to
28 have all those players. It's spread just as lottery
29 participation is spread, quite broadly.

1 COMMISSIONER LOESCHER: Madame Chair, just one. I was
2 intrigued by your charts, you know, Table 1, growth and change in
3 U.S. lottery and \$34 billion in 1997, and then I looked at your
4 other chart, Table 2, and just from our travels across America
5 looking at where major casino gaming is and other types of
6 gaming, I found that the overlap is not really great between
7 where casinos are and where lotteries are.

8 Is there some kind of public policy or some economic
9 phenomenon or something that deters that?

10 DR. COOK: I haven't studied that overlap. I did take
11 a look, again, in the previous research project about an issue
12 that I think is relevant, and that is the extent to which an
13 established commercial gambling interest might be threatened by
14 introduction of the lottery.

15 And certainly in Kentucky that was an issue with the
16 thoroughbred people. In Nevada, you know, presumably there may
17 have been some concern there.

18 What we found when we looked at it was that the
19 introduction of the lottery brings in new gamblers and new money
20 and does not appear to affect the amount of betting on
21 preexisting commercial gambling, and so that while I think that
22 has been relevant politically, it's probably based on somewhat
23 false tenets, that there is only a limited gambling budget which
24 is going to be divided up. It does seem like the lottery brings
25 in more people, different people, and new dollars all the way
26 around.

27 COMMISSIONER LOESCHER: Madame Chair, just one comment.
28 I was struck in the hearings that we had on lotteries. I don't
29 know whether it was Boston or somewhere where that came up, but

1 public policy, it just is ironic how public policy makers think,
2 you know. This huge desire to get money for the state budget,
3 yet the amount of money that's generated that actually goes to
4 the state budget is nominal compared to whole state budgets of
5 states that partake in this business.

6 And then we see a dichotomy of thinking between 37
7 states and their governors who are involved in administering this
8 business, and then we saw Attorney Generals come before us
9 talking against this business, and I just puzzle over how public
10 policy makers balance all of this.

11 Do you have any insight?

12 DR. COOK: Yeah, I think that there's some fascinating
13 politics and also maybe ethical struggles that go on in terms of
14 thinking about the lottery. We've seen it all in North Carolina
15 over the last 15 years.

16 For a long time, the reason why the state did not get a
17 lottery was because Dan Blue, who is a very liberal African
18 American speaker of the house there, stopped it pretty much
19 single handedly.

20 Then after the Republicans took over, it was a much
21 more conservative group of people that were running the house,
22 but they took it upon themselves to stop the lottery, and so this
23 is an area that brings together strange political bedfellows, I
24 think, in a lot of ways.

25 But what the allure is is kind of twofold, and one is,
26 of course, the revenue that's out there to be had, and that's all
27 the more keenly felt in a situation, again, like in North
28 Carolina where a lot of the residents are playing across the

1 border, and so you think that's our money that's going over
2 there.

3 And the other is the fact that the public wants to
4 play, and a clear majority of the U.S. public in every state
5 where they've ever been polled come out in favor of having a
6 state lottery, and I don't think it's because they think it's a
7 good philanthropic activity. I think it's because they want to
8 have the opportunity to play conveniently themselves.

9 And I don't know what your theory of representative
10 government is, but it's a little hard to stand up to that very
11 consistent interest, and they're not misled. I mean, ten years
12 later after they've had a chance to play the lottery over a
13 period of time, they continue to be very supportive, very
14 positive about it. It's probably one of the most successful and
15 popular state activities that there is.

16 So that's some of the interesting features of this
17 business.

18 I mean, I would add to that I don't think that the
19 public is demanding that they get the hard sell with the lottery.
20 I don't think there's any particular interest in that, but they
21 do want the opportunity to play, and that seems like it's
22 relevant.

23 COMMISSIONER DOBSON: Dr. Cook, I want to express
24 appreciation to you for your presentation today, which I found
25 fascinating, and also for working with us on the Research
26 Committee throughout the Commission.

27 Would you just comment briefly on your impression at
28 least as to whether or not the states that promise the profits
29 from the revenues from the lottery will go to education and

1 whether or not they typically do result in more money for the
2 education establishment or because money is fungible, one dollar
3 is replaced with another?

4 DR. COOK: In some states earmark revenues from the
5 lottery so specifically, so narrowly that it would be hard to
6 believe that there was much fungibility. You know, Pennsylvania
7 long ago earmarked a lot of their lottery revenues to programs in
8 support of the indigent elderly, and they were programs that
9 didn't exist before the lottery came along.

10 Georgia has gotten a lot of attention for the Hope
11 Scholarship Program that they invented and funded around the
12 lottery which presumably would not be there without it.

13 But I think by and large the states simply say this
14 revenue is going to support public education. The problem is
15 that there's no way to test that because that's a dribble of sand
16 on the sand dune, you know. I mean, it's a very small amount of
17 money relative to the size of the overall education budget, and
18 it gets lost there, and ordinarily you wouldn't be able to test
19 whether or not, in fact, the state five years after a lottery is
20 introduced is spending more on public education than it would
21 have if there had never been a lottery introduced. I mean you
22 can't do that widely by econometric methods or anything else.

23 COMMISSIONER DOBSON: I'm not sure if I understood
24 that. You do show an increase after the lottery instituted or
25 you don't?

26 DR. COOK: I said there's no way to test. I mean if
27 you imagine the experiment and say, okay, here we are. We've had
28 a lottery for ten years. It's all going to education it says
29 right there in the legislation, and we notice that the education

1 budget is \$3 billion. Now, how much would the education budget
2 have been if we had never introduced that lottery?

3 Well, who knows?

4 COMMISSIONER DOBSON: We have the comparison to the
5 previous years.

6 DR. COOK: Yeah. I mean, of course, the education
7 budget grows one year after another. Maybe the growth rate
8 changes a little bit when the lottery comes in, maybe it doesn't.
9 Maybe it would have changed anyway. It's sort of an untestable
10 proposition.

11 COMMISSIONER BIBLE: You should be able to test though
12 at least at the introduction of the lottery whether there's an
13 effect on, say, the education budget.

14 DR. COOK: Yeah.

15 COMMISSIONER BIBLE: Did the education budget show a
16 one time jump?

17 DR. COOK: It could show a one time jump. When we were
18 doing the research on the book, we had one smoking gun. I think
19 it was an Iowa legislator that said the way they set the
20 education budget was first to check on how much revenue was going
21 to be received from the lottery and then reduce their target by
22 that amount, and so, I mean, he said it for attribution, and we
23 had that.

24 COMMISSIONER BIBLE: But if you look at the data where
25 lotteries are introduced and they're earmarked for, say,
26 education, do you see a one time effect where the education
27 allocation goes up?

28 DR. COOK: Right. I mean, we never were able to pick
29 out anything that indicated that it made a difference.

1 COMMISSIONER BIBLE: The total expenditures increased.

2 DR. COOK: Total expenditures --

3 COMMISSIONER BIBLE: It just becomes part of the
4 increase stream.

5 DR. COOK: Increased rate that was different than they
6 would have otherwise.

7 COMMISSIONER BIBLE: And when you say it's two percent
8 of total revenue, do you mean total general fund revenue?

9 DR. COOK: General fund revenue.

10 COMMISSIONER BIBLE: Or government revenue?

11 DR. COOK: Yeah.

12 COMMISSIONER BIBLE: Total general fund revenue.

13 DR. COOK: Right. In education it might be eight or
14 ten percent.

15 COMMISSIONER BIBLE: If a state typically will allocate
16 50 percent of its general fund to education. So with your
17 figures it would be about four percent if it's educational
18 enhancement.

19 DR. COOK: Yeah, and I'm sure it depends on the state.
20 We had figured that for -- we did some calculations for North
21 Carolina. It would be a bit more than that, but still a small
22 fraction of the total.

23 And so I think earmarking to a very large bucket has
24 the effect of making it -- removing accountability.

25 COMMISSIONER DOBSON: So the advertising, especially
26 when there's an effort to sell the lottery to the public in a
27 place that doesn't have it, that indicates education is going to
28 benefit remarkably from the introduction of the lottery is
29 baloney?

1 DR. COOK: Arguably, yeah. I mean, as I say, I think
2 that the problem is that it's very hard to hold people
3 accountable, to hold the legislature accountable or even to say a
4 few years later whether or not things have changed compared with
5 what they would have.

6 COMMISSIONER DOBSON: Well, are you saying it's baloney
7 or are you saying you don't know?

8 DR. COOK: I'm saying we can't tell, and so it's
9 baloney in the sense that depending on your view of what the
10 political process is --

11 COMMISSIONER McCARTHY: As a campaign pitch it's
12 baloney.

13 COMMISSIONER DOBSON: If a noted sociologist can't
14 tell, the impact that should motivate the voter ought to be
15 minimal also, I would think. If you can't determine
16 statistically --

17 DR. COOK: Right.

18 COMMISSIONER DOBSON: -- that there's a significant
19 difference, it's over sold to the public, or so it would seem to
20 me. Would you agree with that? I'm not trying to put words in
21 your mouth, but somebody is selling --

22 (Laughter.)

23 COMMISSIONER DOBSON: Somebody is selling the -- that's
24 unsanitary.

25 COMMISSIONER McCARTHY: Rephrase that in your own
26 words.

27 (Laughter.)

28 COMMISSIONER McCARTHY: With the same meaning.

1 COMMISSIONER DOBSON: I'm quoting you now. Would you

2 --

3 (Laughter.)

4 COMMISSIONER LANNI: The one thing you can, I think,
5 say is that if it represents two percent of the state's general
6 fund on the average, the state would need to fund whatever it's
7 funding -- that two percent to be replaced in some form by tax
8 increases or some other form of revenue. That's one thing it --

9 DR. COOK: Or reduce the budget by two percent.

10 CHAIRPERSON JAMES: Or make it more efficient.

11 COMMISSIONER LANNI: That could easily be done. You're
12 right, Madame Chair. There's no doubt about that. I mean
13 realistically. I'm not a fan of lotteries personally, but it
14 seems to me that if it does represent two percent of the average,
15 the state, if it wanted to maintain the same level of funding for
16 various programs, would need some other source for that two
17 percent. That could be a personal income tax or an increase on
18 an existing state personal income tax as a possibility.

19 So the voters would have an interesting in that.

20 DR. COOK: Yeah, and I think that's important in the
21 politics of adoption, is people resist the idea of raising tax
22 rates if the state does not yet have a lottery because they say
23 why don't we just solve this problem by --

24 COMMISSIONER BIBLE: Well, from a political standpoint,
25 it's easy money. It's an easy decision to make. It's considered
26 to be a voluntary tax, and there's no particular constituency to
27 get outraged if you create a lottery. It's just easy money.

28 DR. COOK: Exactly.

1 CHAIRPERSON JAMES: Given that, Commissioners, what's
2 your pleasure? I mean we're open for discussion in terms of
3 where we'd like to go with this.

4 COMMISSIONER MCCARTHY: Just one quick comment on the
5 point that's been discussed for the last few minutes. The Iowa
6 legislator, I think, probably speaks for the large majority of
7 state legislators in America. Only in the first two-year cycle
8 do you have any chance of really measuring whether the dollars
9 added on by the lottery really generate a significant percentage
10 increase for what that state gives to usually K-12, sometimes
11 community colleges.

12 Three or four years or sessions later, it's impossible
13 to measure. As a matter of fact, the likelihood is that they've
14 forgotten all about the lottery other than they need to promote
15 it because there may be other general fund programs, new programs
16 or expanded programs they need money for, they'll push the
17 lottery commission and director to try to generate more funds,
18 but I think you've explained it very well.

19 The word "baloney" is applicable in the campaign to get
20 the lottery in the first place, ever suggesting to the voters
21 that this is really going to enhance the education budget. It
22 does not, and it would be very uncommon if it did throughout the
23 states.

24 I have just one request of you, Dr. Cook. We've talked
25 over the phone and we've never met, and I add my thanks to what
26 some of my colleagues have said for your help throughout our
27 efforts here.

28 The more we can know about that five percent that buys
29 51 percent, and I think that's what you were telling us; 51

1 percent of the dollars spent on lottery ticket purchases or
2 whatever the form of the game is comes from five percent of the
3 players. The more you can tell us about that five percent, the
4 more it strengthens our efforts.

5 We've got to also try to get at seeing how much --
6 that's where we find the problem, pathological gamblers, in that
7 five percent. What are their incomes? Anything you can do with
8 profile information would be much appreciated.

9 Thank you.

10 CHAIRPERSON JAMES: Any other comments from
11 Commissioners?

12 Any other information that you'd like the staff to
13 gather so that as we begin our deliberations in terms of what we
14 want to say on this issue would be helpful?

15 COMMISSIONER McCARTHY: When will we have the final
16 report? Was that mentioned?

17 DR. COOK: We have a report that can stand as a final
18 report. It keeps getting better. So we'll have --

19 COMMISSIONER McCARTHY: When will we have the best
20 final report?

21 DR. COOK: The final report point one, final report
22 point two. I think within -- I mean, I --

23 CHAIRPERSON JAMES: What's the date, John, that --

24 DR. COOK: I think that's what's going to determine
25 this, what the staff tells me is the last time they can use it,
26 especially on the marketing stuff.

27 COMMISSIONER DOBSON: Madame Chairman, I don't know
28 where, again, our deliberations are going to occur for the bottom
29 line on some of the things that we're here to say. Obviously

1 we've got one more meeting left now, and that concerns me because
2 some of these things obviously are going to be worked out in a
3 debate or at least a discussion.

4 On this one I just want to go on record as one
5 individual, which won't surprise anybody, but I really believe
6 some of our strongest negative comments should be addressed to
7 the issue of lotteries, how they're run, how they're advertised,
8 and the impact on the culture.

9 CHAIRPERSON JAMES: Jim, I'm pushing in every way I
10 know how to get people to talk about these issues right now, and
11 it's not an easy thing. So I'm happy to have you go on the
12 record. I'm happy to have other people state their preference,
13 give some direction. What other information do you need before
14 you want to make that because we are trying to push this process?

15 April 1st is when the best final --

16 DR. COOK: The best final report will be available on
17 April 1st.

18 COMMISSIONER BIBLE: Well, you can certainly look at
19 lotteries and you can tell and you can come to a lot of negative
20 conclusions and you can make a lot of findings of facts that are
21 essentially negative.

22 That having been said, then the question becomes:
23 what do you do?

24 These are integral to the operation of state
25 government to a large extent at this point.

26 CHAIRPERSON JAMES: Bill, can you speak into the
27 microphone?

28 COMMISSIONER BIBLE: You have a number of problems
29 because of the way they're structured within the governmental

1 apparatus. They're part of the revenue stream. I think you're
2 going to go into a debate now in Virginia; at least you were the
3 last time we were out there, as to the allocation of the monies
4 from the lottery and whether or not it should get back, I guess,
5 to the educational component.

6 I followed part of that debate in Virginia and whether
7 it's going to reduce services or cause an increase in taxes in
8 other areas. From a recommendational standpoint, I suppose you
9 have the advertising practices, perhaps subject them -- try to
10 subject them -- I don't know what the legal basis of doing it
11 would be -- to the same sort of controls as if it were a
12 commercial enterprise.

13 CHAIRPERSON JAMES: Any reaction to Bill's comments?

14 COMMISSIONER BIBLE: We had quite a bit of testimony up
15 in Boston that they're exempted from a number of the federal
16 practices.

17 COMMISSIONER McCARTHY: In reacting to what Bill's
18 saying, I think there are two audiences here. One are the 13
19 states that don't have lotteries, and I think we should give
20 them, you know, whatever the consensus is of the strongest,
21 clearest message possible.

22 And the second message is I certainly agree that
23 lotteries are deeply -- first of all, I think if you have to have
24 lotteries, some states conduct themselves differently than other
25 states, and I think some differentiation ought to be recognized.

26 And while I know you might be loath to rank the candor
27 of the advertising, I think some effort needs to be made not to
28 throw everybody into the same bag here. I'm not knowledgeable
29 enough yet to see all of, you know, the distinctions. Some stuff

1 is pretty offensive. Other stuff is probably pretty neutral and
2 not bad once you've got the lottery in place.

3 But I think the second audience are all of the 37
4 states that do have lotteries, and we're just going to have to
5 figure out what that message is. I think Bill is right. It's
6 there. Nothing we say is going to get them to repeal the
7 lottery, if indeed that's even what we wanted to suggest, but
8 perhaps what we do offer if it's clear enough and strong enough
9 will cause some to act with some restraint in advertising and in
10 other areas.

11 So I think the clarity of the message is pretty
12 essential and could be fruitful.

13 COMMISSIONER BIBLE: And probably along that line what
14 we could do is describe best practices in the lottery area.

15 CHAIRPERSON JAMES: Best practices in the area of
16 advertising?

17 COMMISSIONER BIBLE: Oh, no, in --

18 CHAIRPERSON JAMES: Best practices in the area of?

19 COMMISSIONER BIBLE: Total area of lotteries.

20 COMMISSIONER DOBSON: And the worst.

21 COMMISSIONER BIBLE: Well, I'm thinking of
22 recommendations. We don't want to recommend -- I mean not doing
23 the worst.

24 COMMISSIONER LANNI: I think you're saying the same
25 thing. Recommending a level of practice that would be a minimum
26 for an individual state.

27 I would add I agree with Jim and Bill's comments. I
28 would also add what I mentioned yesterday, is I think that the
29 lotteries in each state should be encouraged by this Commission,

1 my opinion at least, which as I always say I do respect, that
2 there should be some form of commitment of dollars from the
3 states towards pathological and problem gambling and how that is
4 dealt with. I think that should run through all forms of
5 legalized gaming or gambling in the United States.

6 COMMISSIONER BIBLE: Or knowing the way the lotteries
7 work, what would happen is somebody would decide, well, we want
8 two percent. So they're going to put an extra two percent as
9 income receipts from the lottery, and they'll go out there and
10 market it more aggressively.

11 COMMISSIONER LANNI: Well, in addition, obviously the
12 marketing aspect, as long as we have some proposed limitations on
13 methodology, the practice of marketing, I think that would --

14 COMMISSIONER BIBLE: Well, no, I philosophically agree
15 with you. But you're talking about across the board, and I think
16 across the board is appropriate in all forms of legalized
17 gambling.

18 CHAIRPERSON JAMES: And I think we've heard that in our
19 discussion yesterday. So we were talking about best practices in
20 terms of everything, in terms of advertising, but I also think in
21 terms of how the dollars are committed. Perhaps we should
22 highlight the fact that in Georgia they started the Hope
23 Scholarships. They separated out those funds so that you could,
24 in fact, see where the money was going, and suggest to other
25 states that they may want to do something like that.

26 COMMISSIONER MOORE: It worries me that, whether it
27 might be federal or state, are contributing to the growth of
28 gaming. Now, whether that's good or bad, I'm not here to judge
29 that. The lottery will continue to grow, I'm sure, and this ad

1 that you showed with this kid jumping around and was so glad that
2 his mother got this higher education and attributed it to the
3 lottery, that to me is just unbelievable that a state government
4 would produce a lottery or any other gaming or most any other
5 advertisement that so-called vice, if you want to call it that --
6 I don't have a strong opinion about that word -- but we need -- I
7 think we need to have a recommendation to the states also. I'd
8 like to say that they look at this.

9 I mean, there are some moral issues still out there in
10 this country.

11 CHAIRPERSON JAMES: Not anymore.

12 COMMISSIONER MOORE: Well, there are a few, and this
13 needs to be addressed, and I believe that this Commission would
14 be the one that should address it.

15 CHAIRPERSON JAMES: Any opposing view on the Commission
16 to saying something along those lines?

17 COMMISSIONER WILHELM: I don't -- I certainly don't
18 have an opposing view, but I do have a concern related to
19 something Bill said a while ago. It had to do with the notion
20 that a state might try to pretend that it lacks responsibilities
21 here by chartering or retaining a private corporation for the
22 purpose of pretending that it isn't the state. It seems to me
23 that would be fairly much of a sham.

24 I think this issue to some degree represents the
25 perpetual truth of the law to run into any consequences because
26 the observation has been made by Dr. Cook and others that these
27 things are run like a private business would run a lottery, and
28 you know, we're always telling governments they ought to run like
29 a business.

1 I realize that's not what people really intend when
2 they say that, but I hope that we don't set up a situation in
3 which states, in order to evade the thrust of what we're
4 suggesting here, merely off- load it to some private company and
5 wash their hands of it.

6 CHAIRPERSON JAMES: Yes.

7 MR. WARE: My name is Weston Ware, and I work on the
8 lottery or against the lottery in Texas, and I'd like to say that
9 what you're really dealing with is lottery companies.

10 When the lottery pressure began to build in Texas, it
11 was not the pressure of public support for a lottery. It was 40
12 to 50 lobbyists being hired by out-of-state companies coming into
13 Texas to operate a lottery.

14 So what you're really dealing with is not what states
15 are doing, but what business is doing, and the states are buying
16 into it.

17 And I would urge you to look carefully. If you
18 remember, the funding of the lottery in California in '84 or '82,
19 whenever it was, GTEC (phonetic) went in and spent several
20 million dollars to make that referendum happen, and that's been
21 the case in many of the states where lotteries have come.

22 And I would just urge you as a Commission to look at
23 the companies that are really the ones that are making these
24 videos that you've seen today.

25 Thank you.

26 CHAIRPERSON JAMES: Just for the record, I want to make
27 sure that Commissioners are aware of the fact that we did invite
28 GTEC to come and present and to offer their opinions and allow

1 themselves to be questioned by this Commission, and they did
2 decline.

3 COMMISSIONER LOESCHER: Madame Chair, I'd like to just
4 say a few words about this since you're trying to get some input
5 for the report.

6 You know, I keep thinking about it every since Boston,
7 about this business, you know, and the statistics are very
8 graphic, and I appreciate your presentation that, you know, this
9 impacts the low income people, the less educated people. It
10 starts right at the family level, you know, with both the mothers
11 and fathers playing this game.

12 You know, the business of, you know, what's the role of
13 the state. You know, the state is not only in this instance a
14 regulator; it's an operator, and I just struggle with that idea,
15 you know, that the government advocates and supports and advances
16 this whole business of lotteries.

17 You know, we were able in the last several years to get
18 the Congress and the states and everybody to work together to
19 help people get jobs, and my friend, John, wouldn't say the word
20 "jobs" because he's trying to hold out, but I'll say it for him.

21 CHAIRPERSON JAMES: Go ahead, John. Get it in before
22 lunch.

23 COMMISSIONER LOESCHER: Jobs. There's not a lot of
24 jobs in this business. It doesn't create a lot of enterprise in
25 jobs, but the business of welfare to work, we have worked real
26 hard in America to get people off unemployment, and this attacks
27 the very place or the very group of people that we're trying to
28 help, you know, economically to raise their income, to get better
29 educated, to get the work ethic, and then you see the statistic

1 of how much money comes out of that low income family going to
2 this lottery thing.

3 So I just struggle with that business. The other thing
4 I struggle with, and 37 states do this kind of thing, so we're
5 not going to change it overnight, but the business of offsets.
6 You know, the public policy isn't clear uniformly across America,
7 yet it's sanctioned in the public policy that it supports
8 education or it supports jobs or it supports something.

9 But when the policy makers get it into the general fund
10 of the state, then it disappears, and maybe there ought to be a
11 little bit of integrity here -- that's a hard word to bring up
12 every once in a while -- about what people's money is being spent
13 for, particularly when we know it's coming from the poor and the
14 less educated and people that are trying to get from welfare to
15 work.

16 So, Madame Chair, these are my comments, and I'm
17 hopeful they will be helpful to the report writing.

18 CHAIRPERSON JAMES: You know, John, I've heard you say
19 a couple of times, and I agree, that it's troublesome that the
20 majority -- not the majority -- the few lottery players, the five
21 percent that are responsible for the 51 percent, just based on
22 the data, seem to be low income, disproportionately black, less
23 education, but we defend their right to be able to do that and
24 make the decision if that's how they want to spend their money.

25 I have very ambivalent feelings about that. If that's
26 what you want to spend your dollar on and that brings you some
27 pleasure, I mean, I've had this argument constantly in my own
28 family with people who play the lottery, and I see it as a
29 complete waste of money, complete waste of money, but they do it,

1 and so I don't know quite how to handle that in the report. It's
2 troubling to me. It is very troubling to me.

3 And I think when you juxtapose that against the
4 advertising issue, it becomes even more troubling, and so I don't
5 want to presume that poor people or black people or uneducated
6 people can't make their own decisions about how to spend their
7 money, but, boy, there's a troubling component there that I'm
8 struggling with.

9 COMMISSIONER DOBSON: Kay, for me the answer to that
10 dilemma is that I'm not in favor of outlawing or suggesting that
11 states make lotteries illegal. That would be doing what you're
12 suggesting, but we as a Commission do have an obligation, I would
13 think, to make a statement about it to the public, about the
14 regressive nature of this and the way it exploits the poor and
15 the way it preys on desperation and hopelessness.

16 That's not taking away the choice of the people to
17 spend their money that way, but we at least have a responsibility
18 to make a statement about it.

19 COMMISSIONER WILHELM: Yeah, I think Jim's right. I
20 share, Kay, your dilemma about the issue that you raised. I
21 mean, I may be remembering the number wrong, Dr. Cook, but I
22 think that the annual expenditure for African American players
23 was \$986 or something like that. Well, that's basically two
24 bucks a week -- I'm sorry -- how much is that? Twenty bucks a
25 week, 20 bucks a week. Well, you know, people that smoke two
26 packs a day spend that much money.

27 COMMISSIONER DOBSON: That's the mean though.

28 COMMISSIONER WILHELM: To me though --

29 COMMISSIONER DOBSON: Half are going to be above that.

1 COMMISSIONER WILHELM: Well, I understand. to me, like
2 Kay said, I think that's loony just as a person, but on the other
3 hand, you know, people do have a right to do this, and it may not
4 seem loony if you don't see other options, you know, that are
5 available to you.

6 Also, in much the same way I'm even -- I feel a similar
7 kind of a dilemma in response to Bob Loescher's comments just
8 now. I mean my personal reaction is, yeah, governments should
9 not be at least aggressively advertising this stuff. That makes
10 sense to me.

11 On the other hand, if we're going to say that to a
12 state government, does it follow from that that we have to say
13 that to tribal governments? I mean, at least tribal casinos --
14 and I appreciate Bob getting to this first. I was trying to not
15 be first today -- but at least tribal casinos offer jobs. State
16 lotteries offer few, if any, jobs. You know, I think that's an
17 important distinction.

18 But nevertheless, if we're going to say to state
19 governments, "Hey, you can't advertise this stuff," do we then
20 say to tribal governments, "Hey, you can't advertise this stuff"?

21 As far as I know, the U.S. federal government doesn't
22 advertise gambling, at least to my knowledge. I think these are
23 all dilemmas because we do, first of all, have a free enterprise
24 system, and second of all, we do believe in individual freedom.
25 So I share your dilemmas, Kay.

26 Personally, I come down just for myself in the same
27 place you do. I think this stuff is horrible.

28 CHAIRPERSON JAMES: Well, maybe at the least -- who's
29 an economist here? Who's got a calculator? Twenty dollars a

1 week. Could we just explain the principle of compound interest?
2 I mean what would happen if they saved \$20 a week over -- I mean,
3 could we just juxtapose that against the amount of money that's
4 spent on lotteries to say where you would be at the end of
5 ten-year period if you'd spent that money?

6 COMMISSIONER MOORE: What if they saved it for a year,
7 \$20 a week? That'd be \$1,000, and if they invested that money,
8 that \$1,000, right then and got eight percent a year, in eight or
9 nine years the seven and two rule, you'd save interest, and so
10 they'd end up and they'd have \$2,000.

11 CHAIRPERSON JAMES: That's my smart co- worker.

12 COMMISSIONER WILHELM: He may be a country doctor, but
13 he's also a banker.

14 (Laughter.)

15 COMMISSIONER MOORE: It would skyrocket, and they
16 wouldn't know what to do with their money probably.

17 (Laughter.)

18 COMMISSIONER MOORE: They could go to Las Vegas.

19 CHAIRPERSON JAMES: I do, before she gets away from us,
20 want to recognize the Congresswoman from Las Vegas, Shelley
21 Berkeley. She just stepped out in the hall. She's just stepping
22 back in.

23 Congressman, I want to thank you for taking time out of
24 your day to come by and at least observe a part of our
25 deliberations, and if you want to say anything to the Commission,
26 you're more than welcome to do that. If you just want to stand
27 back and watch as we talk about lotteries, that's fine, too.

28 MS. BERKLEY: Well, I thank you for that opportunity.

1 As you know, I was raised in Las Vegas, and the issues
2 that you are considering are very important to me. I have a
3 great affinity for the industry in Las Vegas. I am a product of
4 it, and I admire all of the work that you're doing. I think it's
5 very important, and we are most anxious to see the conclusion of
6 your studies.

7 So thank you very much for all of your hard work. We
8 appreciate it very much.

9 CHAIRPERSON JAMES: Thank you, and we are honored by
10 your presence here today.

11 I'm sorry. I interrupted someone down at this end of
12 the table. I'm not sure who was speaking. No?

13 Terry.

14 COMMISSIONER LANNI: Again, on the social side of the
15 life, I think making recommendations possibly to have states
16 consider the aspect that a very small percentage of people at the
17 lower level of the income bracket are participating in these
18 games is something that we should do. I don't think we should
19 overly direct them. I'm a great believer in individual state's
20 rights and individual's rights, and as long as it's legal and
21 people are doing it, it may still be foolish, but it is legal.

22 I would think that we should have some form of
23 recommendation though that the states take unto themselves to
24 study the aspects of that, how much advertising affects it
25 because we are going to apparently -- there seems to be a
26 consensus that we make a recommendation about some guidelines for
27 advertising.

28 But something else the gentleman from Texas raised,
29 because we really didn't get too much into the area of

1 regulation, because when you have a government operating a
2 business and they're regulating themselves, that does afford some
3 potential problems.

4 I think there may well be a positive point of making a
5 recommendation at the very least that there be some form of
6 licensing of entities and background checks of these entities
7 that are conducting and operating this form of gaming, if you
8 will, in the individual states, and I don't know to what degree
9 that does exist or if it exists at all in any of the 37 states or
10 the District of Columbia, but I think there should be a form of
11 some agency within a state, and that would be my recommendation
12 that the Commission consider, is making a recommendation to the
13 several states that are involved in this that they will find a
14 way to have some agency within that state to do background checks
15 and, in effect, license entities who are operating any form or
16 aspects of these particular games to be sure that they meet
17 probative standards, at the very least, which should take into
18 consideration their business practices, their practices in other
19 states, and get them some kind of a Good Housekeeping seal of
20 approval.

21 CHAIRPERSON JAMES: Would anybody be opposed to any
22 such --

23 COMMISSIONER BIBLE: No, I wouldn't be opposed to it,
24 but when we collected the information on lotteries, did we
25 collect information on the structural operation of the lotteries?
26 The lottery directors, are they typically appointed by the
27 governor? Is there a board of directors? Is there an advisory
28 board? Is there some other controlling mechanism for the lottery
29 itself?

1 DR. COOK: We have some information on that. There's a
2 table in the report that we sent that has some information which,
3 I think, says -- Table 5 that talks about where it's located in
4 government, whether it's an independent agency or a regular
5 agency and whether it's exempt from personnel rules and
6 procurement rules.

7 COMMISSIONER BIBLE: What is the common practice?

8 DR. COOK: The common practice is exemption. It's
9 partially to be exempt from procurement rules.

10 COMMISSIONER BIBLE: Will they have a governing board,
11 a board of policies, things of that nature?

12 DR. COOK: Let me get that. I think we can get that in
13 the stuff that we have.

14 COMMISSIONER BIBLE: Because typically you look at the
15 lottery --

16 DR. COOK: You're talking about service, civilian --

17 COMMISSIONER BIBLE: Well, you look at a lot of
18 functions of government if you have a retirement system or you
19 have an unemployment compensation system or you have a university
20 system or an education system that are components of government.
21 They will have an independent board, an oversight board that's
22 involved in the day-to-day policy setting for that particular
23 operation, and maybe something like that would be appropriate for
24 lotteries to, in fact, be their board of governors in terms of
25 best practices.

26 I mean, if you're going to describe a list of things
27 you may want to take a look at, that may be one of the components
28 that's missing. There's not an independent group that's
29 providing oversight on a day- to-day basis, that there's just a

1 typical department of state government. They're probably not
2 members of the cabinet. They don't participate in policy
3 decisions per se. It's just an operating entity and may not have
4 appropriate oversight.

5 In some cases there may be boards that have
6 legislators. Legislators certainly have a wide variety of views
7 on lotteries. The individual -- if you attended our meeting in
8 Massachusetts, we had one of the representatives who serves on
9 one of the functional committees who reviews the lottery's
10 budget, who apparently can get his program through the
11 legislature in Massachusetts, invited us to encourage some
12 federal oversight, which I thought was unusual, and I asked him
13 to memorialize that in writing, and it never came.

14 But that may be part of the problem from a structural
15 standpoint within the lottery system. I don't know. I don't
16 know what your research would show.

17 DR. COOK: I think this is rare. I don't know whether
18 any lotteries have it, but it certainly is rare.

19 COMMISSIONER BIBLE: And certainly what Mr. Lanni says
20 is true. There's only two or three main providers, and in some
21 cases if they have commercial gaming activities that's brought
22 them under the jurisdiction of a normal commercial gaming
23 regulatory agency, they've been reviewed, licensed, approved, and
24 subject to that sort of process. In a lot of cases they have not
25 been, and I'm thinking of one provider in particular.

26 COMMISSIONER LANNI: And the board that you're
27 referring to, if you look at parimutuel entities in various
28 states, there are horse racing boards appointed by the governors
29 in the several states to oversee their activities. So I would

1 concur with the addition of having some kind of a body to oversee
2 that particular responsibility within the individual states,
3 along with the background checks and licensing not only of them
4 as individuals, but the people who are providing the services.

5 COMMISSIONER McCARTHY: We asked some questions in
6 these areas in the questionnaire formulated by the research
7 subcommittee and approved it before it went out. So we'll find
8 some of the answers in there to some of these questions.

9 COMMISSIONER MOORE: I'm a little bit -- maybe Mr.
10 Lanni would be a good one. On this GTEC, do these companies
11 actually -- I was under the impression that the states ran most
12 of their own lotteries, and that maybe these companies were just
13 trying to sell the machines. Do some of these companies come in
14 and actually run the lottery for the state?

15 COMMISSIONER BIBLE: In most cases they -- well, Terry
16 could answer the question, but in most cases they are going to
17 actually be the operator of the system per se, the computerized
18 system

19 COMMISSIONER MOORE: And take a percent.

20 COMMISSIONER BIBLE: Well, the compensation will vary.
21 I believe it to be either a percent of the total handle or by
22 ticket sales or something like that.

23 CHAIRPERSON JAMES: Which was why we thought it would
24 be good to hear from them, but they did refuse to come.

25 COMMISSIONER BIBLE: Oh, did they? They were asked?

26 CHAIRPERSON JAMES: GTEC, yes, and I think maybe we
27 should put that request again for one of our final meetings just
28 to --

1 COMMISSIONER BIBLE: Well, I think with Terry's
2 recommendation that it be subject to licensing from all the
3 various jurisdiction, they may want to appear.

4 CHAIRPERSON JAMES: They may be interested in having an
5 opinion on that.

6 COMMISSIONER LANNI: We have made one more enemy.

7 CHAIRPERSON JAMES: With that, I want to thank you, Dr.
8 Cook. You've given us some very helpful and thoughtful
9 information for us to build some recommendations around, and we
10 appreciate all of your hard work and look forward to your report
11 in April, April 1st.

12 DR. COOK: Thanks for the opportunity.

13 CHAIRPERSON JAMES: I'm going to go ahead and take our
14 break now. It's 10:30. We'll get back together at 10:45.